



FINANCIAL *Planning for Business*

A Tax, Financial, & Investment Report

WestPoint *Private client*
G R O U P



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Home Office Deductions

Entrepreneurs, small business owners, and those who work at home may be considering utilizing the **home office deduction** when they file their taxes this year. This deduction can be advantageous, but there are several requirements that must be met before you can claim it as your own.

The Internal Revenue Service (IRS) has exacting guidelines that your business must meet in order to qualify for the home office deduction. For starters, let's address the word "home." As far as the IRS is concerned, "home" can refer to your house, apartment, condominium, boat, or even mobile home. After establishing that your "home" qualifies for the deduction, you must also meet certain tax law requirements. In order to claim a

home office deduction, your business must adhere to the following:

1. Regular and Exclusive Use.

According to the IRS, the part of your home that you claim for business must be used *exclusively* for business purposes and on a *regular* basis. For example, if you are a lawyer who does paperwork at night in your living room where the rest of the family also socializes, then you will not qualify for the deduction. However, if you have a spare bedroom that has been converted into a home office, which you use *regularly* for business purposes *only*, the room will most likely satisfy the requirements.

If you use part of your home for business storage purposes, then you may not have to meet the "exclusive" part of

(continued on page two)

What Makes a Start-Up Business Start?

Small businesses often have many advantages over Fortune 500 companies. Smaller companies may have a greater ability to be more flexible and change with the times than their larger competitors. Capitalizing upon these factors can often improve sales and create a more effective marketing solution. Are you fully utilizing *your* business assets in your sales and marketing strategy? These inexpensive and proven

methods can help propel your company to success:

- Networking is an extremely effective way to generate business, and there are simple ways to do it well. For peers or customers, samples such as a portfolio, references, or a résumé are tangible testaments to the quality of products or services you provide. Be sure to leave materials with potential

(continued on page three)

Home Office Deductions

(continued from page one)

this rule. You can claim business use if you fulfill *all* of the following: 1) Your trade or business is selling products wholesale or retail; 2) You store inventory or product samples in your home for your business; 3) Your home is the only *fixed* location of your business; 4) Your storage space is used for storage on a regular basis; and 5) The space you use is suitable for storage and can be identified as a separate space. For example, if you sell mechanical equipment out of your home and use half of your attic for storage, then you may satisfy these requirements.

If you run a daycare business from your home, then you need not meet the "exclusive" requirement. In this case, when you file your taxes you will have to compute the percentage of your home used for daycare, as well as the amount of time the space is available for use for this purpose. *IRS Publication 587* can provide you with further information on this topic.

After fulfilling the first requirement, you must also meet at least *one* of the following stipulations:

2. Your Principal Place of Business. If your business is 100% home-based, then you should be all set. However, if you have more than one location for your business, your home must be the only place available to you for performing the administrative and managerial aspects of the business.

But those who have primary jobs and secondary businesses can still meet the requirements. For example, if you are employed as a teacher and run your own jewelry business from your home, you may still qualify.

3. Where You Meet with Customers, Clients, etc. If you regularly meet with customers, clients, or patients in an area of your house that is used exclusively for this purpose, then you may fulfill this requirement.

4. A Separate Structure. A building on your property used only for business would meet this condition. This means that if you are an artist, for example, and you convert a shed into a studio, then you would probably qualify. Once again, the rule remains that this structure cannot be used for other purposes, such as storing garden and lawn equipment.

But, what if you work at home on projects supplied by your employer? In order to qualify for the deduction in this scenario, your work at home must be for the convenience of your *employer*. This means that if your employer provides you with a place to do your work, but you *choose* to work at home, then you do not qualify. Such an example would be for *your* convenience and not your employer's. Also, in order to qualify for the deduction, your employer may not provide you with additional

compensation, such as rent, for your home office space.

Once you have determined your home-based business meets the prerequisites, you can move on to the computation aspect of the deduction. Expenses that you might deduct can include rent, utilities, deductible mortgage interest, real estate taxes, insurance, depreciation, painting, and repairs. Usually the deductible amount of these expenses is related to the percentage of floor space used by your home business. If 20% of your home is used for business, then you might be able to deduct 20% of your expenses.

There are two more things you will have to bear in mind if you claim a home office deduction. First, if you are a homeowner and sell your home, the depreciation you claimed on your home office must generally be applied to reduce the basis of your home and be taxed. In addition, if you have made insufficient personal use of your home, you may have to prorate the exclusion of gain that would otherwise be available. Second, it is important to note that you cannot cause or increase a business loss by deducting amounts that have deductibility dependent on your home office. Consult a tax professional for specific guidance. The home office deduction involves many rules, but if you qualify, it can be well worth your time and effort. \$



What Makes a Start-Up Business Start?

(continued from page one)

- clients to remind them of your business after you've gone.
- Make an Alliance. "Beef. It's what's for dinner" is an excellent example of an ad campaign that conveys nutrition and Americana to help promote farmers, distributors, packagers, etc. Consider making alliances with companies that complement yours to share advertising, promotional, and market research expenses.
 - Establishing your business presence on the Internet is becoming increasingly important, as consumers grow more web-savvy. Your site can reach those searching for your services and provide additional information for existing customers.
 - Trade shows and conferences are great ways to advertise your business. You'll have a captive audience, and you'll get to see what some of the competition is doing.
 - Consider volunteering your time and services to community and industry-related events. If you want to introduce yourself, compose media kits with your photograph, company bio, service goals, and credentials, and mail them to the appropriate parties. Follow up by phone, and if that doesn't work, consider organizing your own events.
 - Direct mail can be one of the most economical forms of advertising when used appropriately. If you're in a business with a specific target market and you have, or can obtain, customer mailing lists, your total expense for a direct mail project can be quite reasonable.

All businesses are unique and strategies will work differently for each company. Maximize the same creativity that led you to start your business in the first place and use it to promote your product. There are many ways to reach potential customers, and with a little brainstorming, you will find several solutions that are productive, easy, and inexpensive. \$

Improving Employee Performance with the Right Incentives

Retaining key employees is central to the success of any business. Keeping qualified and hardworking staff on board will result in greater customer satisfaction, more efficient administration, and improved profitability. Offering incentives above and beyond basic compensation is among the most effective strategies for building employee loyalty and motivating employees to perform well.

According to a study published in the autumn 2006 issue of *Personnel Psychology*, organizations that eliminate employee

incentives can expect a 10% to 20% reduction in their bottom line, while those that implement progressive incentive programs can see a 10% to 20% improvement in employee retention, employee productivity, and profitability.

For any organization, high rates of turnover can be costly and disruptive. A steady stream of exiting employees can take its toll on morale, as well as on the bottom line. When an employee leaves, knowledge and experience walk out the door. Resignation and apathy may set in as staff see their friends and col-

leagues leave for greener pastures, and those remaining face greater job responsibility and the need to train yet another new hire.

Paying market-rate salaries is, of course, essential to recruiting and retaining staff, as is providing employees with a basic package of health and retirement benefits. But offering top-of-the-line wages and benefit packages to employees is often not possible for smaller businesses. Lacking the economies of scale that allow larger organizations to offer a wide range of benefits and other

(continued on page four)



Improving Employee Performance with the Right Incentives

(continued from page three)

perks, such as subsidized cafeterias or on-site fitness centers, you may be concerned that your company will be unable to compete for the best staff.

Bigger Isn't Better

Instead of thinking about the incentives you cannot afford to provide, consider how your business can leverage its strengths. Compared with larger organizations, smaller employers can offer staff a much more intimate atmosphere, in which even low-level employees have direct contact with owners. This shorter chain of command between employer and staff can foster greater loyalty and a stronger sense of mission. It is easier for employees to appreciate the impact of their contributions when they are felt immediately throughout the organization.

Flatter hierarchies alone do not, however, automatically engender employee loyalty. It is important for business owners and managers to communicate regularly with staff about financial and management issues. If your company does not have a formal system for passing on information to all staff members—such as regular e-mails, newsletters, or meetings—some employees may fall out of the loop and become disconnected. Employees

who understand the company's short- and long-term goals and challenges tend to be more engaged.

Performance Incentives and Flexibility

Performance-related bonuses, even if they are not large, can go far in motivating employees. These may be offered individually, by department, or across the organization. Bonuses may be tied to specific targets or to overall profitability. Targets should always be set at attainable levels, or they will serve to discourage, rather than to motivate, employees. The knowledge that better organizational performance will result in concrete financial rewards provides a substantial incentive to work harder and more efficiently.

Your business can also compete in the labor marketplace by helping employees manage their responsibilities at work and at home. For many employees, especially those caring for children or other family members, the opportunity to work flexible hours or telecommute can be a major factor in their choice of employers.

Because opportunities for career advancement are usually more limited in smaller businesses, ambitious employees may choose to leave rather than remain stuck at the same level.

Companies can tackle this

problem by providing staff members with training opportunities and progressively greater job responsibilities. Your business may, for example, offer an administrator additional compensation for acquiring new skills that can be applied on the job.

Relatively inexpensive morale boosters can make a big difference in how an employee feels about his or her employer. Staff outings, office parties, free coffee and snacks, or occasional unscheduled breaks in the day can break up the monotony of the workplace routine. Wellness initiatives can also be highly motivating, yet relatively inexpensive.

Offering employees incentives is important, but so is avoiding disincentives. While guidelines and structure are necessary in any organization, too many petty rules and penalties for minor infractions will frustrate employees and cause them to resent management. Praising good performance is much more effective than policing staff.

Each employee is likely to be motivated in a different way than other staff members, so it is important to consider the individual when developing an incentive program for your employees. Retention, productivity, and profitability may be increased as a result. \$

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